

an introduction to  
**Ontario's  
Financial Structure**

---

June 1974



HJ  
13  
.06  
.058  
1974



Digitized by the Internet Archive  
in 2018 with funding from  
Ontario Council of University Libraries

<https://archive.org/details/ontariosfinancia00onta>

# Ontario's Financial Structure

- the Ontario Economy: strength and diversity
- the distribution of fiscal responsibility in Canada
- an overview of Ontario's finances
- the structure of Ontario public sector debt



Ontario

Ministry of Treasury  
Economics and  
Intergovernmental  
Affairs

The Honourable John White minister  
The Honourable Donald Irvine minister without portfolio  
A. Rendall Dick deputy minister

Finance Management Branch



## H I G H L I G H T S

- At \$48 billion, Ontario's Gross Provincial Product accounts for 41 per cent of Canadian G.N.P. G.P.P. increased by 15% in 1973 and is forecast to grow at a 13% rate in 1974.
- Over 8 million people, 36 per cent of Canada's population, reside in Ontario. More than 50% of Canadian manufacturing output is produced in Ontario.
- The principal expenditure responsibilities of provincial governments are: health, education, welfare, transportation, housing, land use control, environmental protection, and resource development.
- The main taxing powers of the provinces are: personal and corporate income tax, property tax, retail sales and excise taxes. The property tax field is generally delegated to local governments.
- Provincial-municipal direct revenues in 1973, \$20 billion, constitute almost one-half of total Canadian government revenues. Including intergovernmental transfers, 1973 provincial revenues were \$19.8 billion.
- Ontario's revenues for fiscal 1974-75 are forecast at \$7.7 billion, a 12 per cent increase. Expenditures are forecast at \$8.3 billion, a 14% increase.
- Ontario's net cash requirements are budgeted at \$708 million, unchanged from the previous two years.
- Investment in physical assets for the current fiscal year is estimated at \$1.3 billion. As in prior years, almost one-half will be financed out of a budgetary 'operating surplus'.

## H I G H L I G H T S (Cont'd)

- The flow of funds from government pension plans (non-public borrowing) is forecast at \$1 billion in the current fiscal year, considerably above net cash requirements.
- Consequently, the government is undertaking in the current fiscal year a special debt reduction program to reduce outstanding publicly-held debt by \$350 million beyond scheduled retirements.
- Ontario's gross funded debt at March 31, 1974 was \$8.4 billion.
- Just 34 per cent of funded debt is in the form of publicly-held debt, the majority of which (\$1.4 billion) represents U.S. issues on Ontario Hydro's behalf.
- The Ontario government performs a major intermediary function, borrowing via debenture issues and purchasing directly the financial obligations of its municipalities, school boards, universities, hospitals, and agencies.
- Of Ontario's gross debt of \$9 billion on October 31, 1973, \$4.3 billion is attributable to its financial intermediary role and to U.S. borrowing for Hydro.
- Net debt outstanding on March 31, 1974 is estimated at \$2.9 billion. Net debt per capita is estimated at \$366. Net debt is forecast to reach \$3.6 billion by March 31, 1975.
- The ratio of net direct plus guaranteed debt to government revenue is estimated at 96%, the second lowest of any Canadian province.



THE ONTARIO ECONOMY 1972-74

	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>72/71</u>	<u>73/72</u>	<u>74/73</u>
	(billion)			(per cent change)		
Gross Provincial Product	\$ 41.9	\$ 48.1	\$ 54.3	10.9%	14.7%	13.0%
GPP (constant 1961 dollars)	29.1	31.2	32.8	6.0	7.2	5.0
Prices (1961 = 100)	144.2	154.4	166.3	4.6	7.1	7.7
Private & Public Investment	8.2	9.7	11.2	10.5	18.3	15.0
Machinery & Equipment	3.0	3.6	4.2	7.2	21.0	17.0
Total Construction	5.2	6.1	6.9	13.0	17.3	13.0
Non-Residential	3.2	3.7	4.3	6.2	14.5	16.0
Residential	2.0	2.4	2.6	24.2	22.0	9.0
Retail Sales	13.0	14.5	16.3	9.5	11.9	12.0
Personal Income	34.4	39.2	44.8	12.2	14.0	14.4
Corporate Profits (before taxes)	4.8	6.5	7.0	20.0	36.0	7.0
<hr/>						
Labour Force (000's)	3,381	3,510	3,636	4.1	3.8	3.6
Employment (000's)	3,219	3,367	3,472	4.5	4.6	3.1
Unemployment (% of labour force)	4.8	4.1	4.5	-	-	-
Housing Starts (thousands of units)	102.9	110.5	110.0	14.4	7.3	-

Source: Ontario Treasury

# the Ontario Economy: strength and diversity

Ontario, with 8.0 million residents, accounts for over 36 per cent of estimated population in Canada, 37.8 per cent of the total Canadian labour force, and 38.5 per cent of total employment in Canada. Labour force projections for Ontario indicate an average 3 per cent growth over the next few years. With an extensive industrial base and a high level of skill within the labour force, Ontario's unemployment rate is consistently lower than the national average. Where the national average is currently 5.3 per cent, only 3.6 per cent of Ontario's labour force is unemployed.

Ontario's strong primary and secondary industrial structure provides a well-diversified base for economic growth and stability. As of 1971, over 50 per cent of Canadian establishments in primary metals, metal fabrication, chemical production and electrical equipment were located in Ontario.

SELECTED INDUSTRIES IN ONTARIO AS PERCENTAGE OF NATIONAL TOTAL: 1971

<u>INDUSTRY</u>	<u>NUMBER OF FIRMS</u>	<u>NO. OF EMPLOYEES</u>
Food & Beverage	36.2%	36.6%
Metal Fabrication	52.1	57.2
Transportation Equipment	40.4	52.9
Electrical Products	61.6	68.2
Chemical Products	50.1	55.9
Primary Metals	50.4	63.2

Source: General Review of Manufacturing Industries of Canada, Vol. 1, Statistics Canada, 1971. Estimates of Employees by Province and Industries, 1961-72, Statistics Canada.

Ontario has 40 per cent of all manufacturing outlets in Canada, and produces over 50 per cent of the total value of Canadian manufacturing shipments.

Ontario's 1973 Gross Provincial Product was valued at \$48.1 billion - 40.5 per cent of Canada's GNP. This level represented a current dollar growth of 14.7 per cent over the previous period and a 7.2 per cent increase in terms of 1961 dollars. Ontario's economic growth rates compare favourably with that of Gross National Product, which expanded at 14.8 per cent current and 7.1 per cent real rates. In 1973, personal income per capita reached \$4,907.00, 17.2 per cent higher than the national average.

In real terms, Ontario's GPP is expected to increase by 5 per cent in 1974, the main impetus being strong business investment. Since industrial capacity is currently almost fully utilized, corporate profits' substantial growth of previous years may reduce sharply; but, personal income should maintain its strong growth pattern. Despite a national inflation rate of 10 per cent, consumer spending, previously a major factor in the economic recovery period, should remain buoyant throughout 1974. However, with the lead time involved in bringing new capacity on stream bumping against labour force growth, the unemployment rate may reach 4.5 per cent.



# the distribution of fiscal responsibility in Canada

In the Canadian federal system, the distribution of powers between federal and provincial governments has been constitutionally determined by the British North America Act. Each level of government is sovereign within its respective sphere of jurisdiction. Municipalities are created by their respective provincial governments and, therefore, are not covered by the B.N.A. Act.

## EXPENDITURE RESPONSIBILITIES

Under the B.N.A. Act, the provinces were allotted responsibility for education, hospitals, property and civil rights, licensing of business, administration of justice within each province, and matters of a local nature. Although the intention of the Canadian constitution was clearly to concentrate responsibility at the federal level, as the distribution of taxing power attests, society's changing priorities have been such that most of the rapidly growing expenditure areas now fall within provincial jurisdiction. Health, education, welfare, transportation, housing, land use control, urban development and services, environmental protection, and natural resource development are all provincial responsibilities.

The provincial-municipal share of total government expenditures has grown rapidly, from 37.7 per cent in 1953 to 53.8 per cent in 1963 and 60.5 per cent in 1973. Expanding expenditure responsibilities without corresponding increases in tax room have led to fiscal imbalance between the federal and the provincial-municipal sectors. Although tax-sharing agreements with the federal government have alleviated the situation somewhat, financing of the provincial-municipal sector will

continue to require close co-operative financial planning.

#### TAXING POWERS

In support of the intention to create a strong central government, the federal government was given in the B.N.A. Act the power to raise revenue "by any mode of taxation". The provinces, on the other hand, were to be permitted to levy only direct taxes and to control a variety of direct charges, licences, fees and fines. Thus, the provinces may levy personal and corporate income taxes and property taxes. Constitutionally, they are barred from the commodity tax field. However, by successfully arguing in the courts that sales and some excise taxes are essentially consumer purchase taxes, the provinces have been permitted to enter these fields and they have become major revenue sources.

Municipalities have no constitutional foundation. They are created by provincial legislation and are invariably delegated authority to levy property taxes, their main revenue source. Since provincial legislation may be readily amended, however, the field of property taxation remains within provincial control.

The attached table presents the distribution, by government, of 1973 revenues. Because of the imbalance between expenditure responsibilities and revenue sources, each government's budget contains a substantial portion of transfer payments. The federal government, reluctant to transfer tax room permanently to the provinces, provides financing via conditional payments tied to the provision of specific services such as education and health (Table C4 of the Budget).

Local governments are now dependent on intergovernmental transfer payments for 58 per cent of their revenues. Transfers from the federal government make up 24 per cent of provincial revenues while, on the expenditure side, conditional grants to local governments and hospitals account for approximately 37 per cent of total provincial expen-

ditures (Table C5 of the Budget).

GOVERNMENT REVENUES 1973				
(National Income and Expenditure Accounts Basis)				
(millions of dollars)				
	<u>Federal</u>	<u>Provincial</u>	<u>Local &amp; Hospitals</u>	<u>Total</u>
Direct Taxes - Persons	10769	4612	-	16686*
- Corporations	3419	1350	-	4769
Indirect Taxes	5836	5991	4404	16231
Investment Income	1645	1553	126	3900*
Other	621	1515	868	3004
	22290	15021	5398	44590
Add: Transfers from Governments	-	4733	7545	
TOTAL REVENUE	22290	19754	12943	
Transfers ÷ Revenue	-	24.0%	58.3%	-
Transfers to Governments	4805	7418	-	-

\*includes total of \$1,881 million Canada Pension Plan revenue.

Source: Economic Review, Department of Finance, Ottawa, 1974.

BORROWING POWERS

There are no constitutional limits on provincial borrowing. The Ontario Government, however, feels a responsibility to support the conduct of national monetary policy and generally attempts to avoid large scale foreign borrowing in periods when the Canadian dollar is under pressure.

Municipal borrowing is authorized and controlled by individual provincial statutes. In Ontario, municipal borrowing is generally limited to the financing of capital projects and individual debenture issues are approved by a provincial authority. In the Ontario public sector, apart from Provincial direct and guaranteed debt, the municipalities are the only other active participants in the public capital market.

# an overview of Ontario's finances

## BUDGETARY ACCOUNT

Ontario's financial statements fall into two broad accounts: "non-budgetary" and "budgetary". The former concerns crown corporations, commissions, boards, provincially administered pension funds along with deposit and revenue accounts. The "budgetary account" reflects the revenue and expenditure transactions of the Province.

<u>ONTARIO REVENUES *</u>					
	<u>1970-71</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1970-71</u>	<u>1974-75</u>
	(\$ millions)			(per cent)	
<u>Taxation</u>					
Personal Income	\$ 992	\$1,238	\$1,383	19.5%	17.9%
Corporation Inc.	414	620	706	8.1	9.2
Retail Sales	674	1,305	1,487	13.3	19.3
Other	674	875	1,044	13.3	13.5
	<u>2,754</u>	<u>4,038</u>	<u>4,620</u>	<u>54.2</u>	<u>59.9</u>
Transfers	968	1,269	1,387	19.1	18.0
Other	1,359	1,576	1,709	26.7	22.1
	<u>\$5,081</u>	<u>\$6,883</u>	<u>\$7,716</u>	<u>100%</u>	<u>100%</u>

\* All tables are derived from data presented in Ontario's 1973 and 1974 Budgets. 1973-74 data are interim statements, 1974-75 are estimated statements in all tables.



## Revenues

Ontario's revenues are derived from taxes levied directly by the Province, joint taxation with the federal government, federal transfer payments, interest on investments and returns from Ontario's administrative functions.

Principal sources of tax revenue are income taxes - both personal and corporate - and the retail sales tax. Although the percentage contribution of the group has been relatively constant over the past few years, there has been a distinct shift in the importance of individual taxes.

The Ontario personal income tax is levied as a proportion of the federal basic tax and is collected by the federal government on behalf of Ontario. Federal government decisions to increase personal exemptions in 1973 and to index the personal income tax structure for inflation in 1974 have lowered the tax base. The reduced Ontario income tax yield is reflected in the current estimates. The retail sales tax, on the other hand, has gained greater significance due to the 1973 rate increase to 7 per cent and the continuation of strong consumer spending.

Although indexation of the personal income tax has reduced the growth element of provincial taxation, Ontario tax revenues are expected to expand at the same rate as Gross Provincial Product. Of the three main taxes, corporate income tax, with a fixed rate of 12 per cent, tends to be the most cyclical since its base is business profits. However, the steadier growth patterns of the retail sales tax, personal income and minor taxes modify this influence and tend to stabilize general tax revenue growth.

Federal transfers, predominantly in the form of conditional grants, are expected to supply 18 per cent of total Ontario revenues in 1974.

The share of transfer payments in the total revenue structure continues to diminish in comparison with other, more rapidly growing sources of revenue. For the most part, these revenues are directed into socio-economic programs.

In the 1974 Budget, the Ontario government introduced a number of innovative new taxes. While not significant from a revenue standpoint, it is expected that they will have a considerable influence on inflation due to land price escalation and, indirectly, on the rate of provincial economic growth. The land speculation tax, which will tax certain future capital gains on land at 50%, is expected to have a major dampening effect on land price escalation and encourage an increase in residential construction. A land transfer tax of 20% on purchases of land by non-residents will complement and reinforce the land speculation tax.

#### Expenditures

<u>ONTARIO EXPENDITURES</u>					
	<u>1970-71</u>	<u>1973-74</u>	<u>1974-75</u>	<u>1970-71</u>	<u>1974-75</u>
	(\$ millions)			(per cent)	
<u>Social Development</u>					
Education	\$1,601	\$2,234	\$2,424	30.7%	29.1%
Health	1,597	2,052	2,314	30.6	27.7
Community and Social Services	317	558	647	6.1	7.8
Other	193	317	387	3.7	4.6
	<u>3,708</u>	<u>5,161</u>	<u>5,772</u>	<u>71.1</u>	<u>69.2</u>
Resources Development	767	1,028	1,182	14.7	14.2
Other	742	1,115	1,387	14.2	16.6
	<u>\$5,217</u>	<u>\$7,304</u>	<u>\$8,341</u>	<u>100%</u>	<u>100%</u>

For several years, the Ontario government has assigned a high priority to social development policy, with more than two-thirds of the Provincial budget dedicated to health, education, and community and social services. Stabilization of school enrollments and a levelling of health expenditures have permitted the Government to redirect its focus toward other objectives within its long range social development plan.

The formation of a Ministry of Housing, the announcement of an intention to create an Ontario Land Corporation, and the commitment to development of new urban rapid transit systems signal the future direction of policy priorities in the development of a comprehensive social infrastructure. The GAINS program announced in the current Budget has introduced a guaranteed annual income for Ontario's elderly, blind, and disabled residents.

Ontario has undertaken a dual approach of structural reform and financial support to help minimize the costs of rapid urbanization on its municipal structure. The Province has created eleven regional municipalities containing over 65 per cent of the Province's population. These regional municipal governments link small surrounding urban communities to a major urban centre.

Ontario also supports a system of grants to local governments. These transfers will represent 29.3 per cent of total Provincial expenditures in the current fiscal year, and will account for 47.4 per cent of estimated local government revenues. Total Provincial support to local governments will increase 11.4 per cent this year to \$2.4 billion. In the future, Ontario intends to extend this support. The Province will unconditionalize more of its grants to local governments, it will channel increased federal transfers through the local governments, and it intends to undertake further measures to strengthen municipal borrowing capacity.

### NON-BUDGETARY ACCOUNT

In addition to its operational activities (the "budgetary account"), Ontario has transactions on its "non-budgetary account" in respect of loans and advances to crown corporations, commissions and boards and to provincially-administered pension funds and trust, deposit and reserve accounts.

In the current fiscal year, the majority of loans and advances will be made to municipalities for pollution control facilities (\$116 million); to school boards and universities for capital construction (\$118 million); and to the several government housing corporations (\$150 million). Education facilities, which represented 58.3 per cent of total loans and advances paid out in 1970-71, will decrease to 20.6 per cent in the current year, exemplifying the shift in Ontario's priorities toward urban development, housing and environmental control. These latter programs will account for over 65 per cent of this year's total loans and advances.

### OPERATIONAL CASH REQUIREMENTS

The surpluses or deficits on the budgetary and non-budgetary accounts, along with related financing, are brought together in Table C1 of the Budget, an abbreviated version of which is presented below. Because non-budgetary items affect both sides of the balance sheet, only the balance on budgetary account influences net debt.



STATEMENT OF OPERATIONAL CASH REQUIREMENTS  
(millions of dollars - decreases in brackets)

	<u>1971-72</u>	<u>1972-73</u>	<u>1973-74</u>	<u>1974-75</u>
<u>Cash Requirements</u>				
Budgetary Deficit	\$ 625	\$ 366	\$ 421	\$ 625
Non-Budgetary Deficit	393	374	300	83
Net Cash Requirements	<u>\$1,018</u>	<u>\$ 740</u>	<u>\$ 721</u>	<u>\$ 708</u>
<u>Financing</u>				
Non-Public Borrowing	\$ 747	\$ 776	\$ 958	\$1,044
Public Borrowing	286	252	(225)	(449)
	<u>\$1,033</u>	<u>\$1,028</u>	<u>\$ 733</u>	<u>\$ 595</u>
Increase in Liquid Reserves	\$ 15	\$ 288	\$ 12	\$ (113)

Reflecting the Province's commitment to rapid development of facilities to enhance the quality of life of Ontario residents, net cash requirements have averaged about \$700 million over the past three years. The large cash deficit in 1971-72 was the result of an active fiscal policy designed to ease the impact of the world-wide recession on the Ontario economy.

A strong flow of internal funds from government pension plans has been more than sufficient to finance the Province's cash requirements over recent years. Consequently, Ontario has not been to the capital market to borrow on its own account since 1972 (U.S. borrowings for Hydro are not shown on the Statement). The special debt reduction program announcement in the 1974 Budget will reduce outstanding publicly held debt by \$449 million in the current fiscal year.



Each year, a substantial portion of the Province's expenditures is directed towards investment in physical assets. Since future generations will share the benefits of these lasting assets, it is only reasonable that they should bear a portion of the cost. In the annual determination of net cash requirements, the Ontario government seeks a balance in paying for these physical assets between financing out of current revenues and financing by borrowing. Over the past several years, the desired balance has been achieved, with almost one-half of physical asset acquisition being financed out of an excess of revenues over "operating" expenditures and the remainder by borrowing, mainly from internal pension plans.

<u>INVESTMENT IN PHYSICAL ASSETS</u>			
(millions of dollars)			
<u>Fiscal Year</u>	(1) <u>Physical Asset Acquisition</u>	(2) <u>Cash Requirements</u>	<u>(2) ÷ (1)</u>
1968-69	\$1,028	\$464	45.1%
1969-70	1,014	248	24.5
1970-71	1,172	566	48.3
1971-72	1,316	1,018	77.4
1972-73	1,209	740	61.2
1973-74	1,203	721	59.9
1974-75	1,300	708	54.5
	<u>\$1,177</u>	<u>\$638</u>	<u>54.2%</u>



# the structure of Ontario public sector debt

Reflecting the high level of capital investment essential to achieve Ontario's ambitious social goals and the Province's commitment to an active contracyclical fiscal policy, Ontario's net debt has grown rapidly in recent years, expanding at a 21 per cent annual rate. Over the decade, however, net debt has grown at a more moderate pace, 10.4 per cent per year, and the ratio of net debt to personal income has actually declined from 8.9 per cent to 8.0 per cent.

The substantial growth of debt in the early 1970's attests to Ontario's response to the urgent requirement for development of a comprehensive social infrastructure to meet the needs of a rapidly changing Canadian society.

## THE MAGNITUDE AND COMPOSITION OF ONTARIO DEBT

### Funded Debt

The majority of Ontario's funded debt, almost two-thirds, is in the form of "non-public" debentures issued to government administered pension plans or the federal government. The yield on most of the non-public issues is the long term Canada bond rate; their maturities are concentrated in the 1985-95 period.

Ontario's publicly-held debt, almost evenly distributed between issues for Provincial purposes and U.S. issues on behalf of Hydro, amounted to \$2.9 billion on March 31, 1974. Apart from three small German and two small U.S. issues, all of the "Provincial purposes" debt is domiciled in Canada.

Although Hydro borrows in its own name in every other country, Hydro's U.S. borrowings are done in the Province's name. In this case, Ontario borrows in the U.S., passes the proceeds to Hydro and Hydro issues to the Province a set of debentures identical to the original issue.

FUNDED DEBT OUTSTANDING

as at March 31, 1974

(millions of dollars)

Publicly-Held Debt

Debentures - Canadian dollar	\$1,234	
Debentures - U.S. dollar	54	
Debentures - Deutsche Mark	95	
Treasury Bills	<u>90</u>	\$1,473

Non-Public Debt

Canada Pension Plan	3,704	
Teachers' Superannuation Fund	1,191	
Municipal Employees' Retirement System	503	
Other Federal Government Programs	<u>141</u>	5,539

<u>Debt Issues On Behalf of Hydro</u>		<u>1,382</u>
---------------------------------------	--	--------------

GROSS FUNDED DEBT		<u><u>\$8,394</u></u>
-------------------	--	-----------------------

As part of the special debt reduction program mentioned earlier, Ontario's treasury bill program has been suspended. Fiscal 1974-75 will mark the second consecutive year that "Provincial purposes" publicly-held debt has declined.

SUMMARIZED STATEMENT OF DEBT

as at October 31, 1973

(millions of dollars)

Funded Debt

Payable in Canada	\$6,538	
Payable in New York	1,339	
Payable in West Germany	<u>95</u>	\$7,972

Unfunded Debt

Demand deposits - Province of Ontario		
Savings Office	186	
Pension funds and deposit, trust, and		
reserve accounts	793	
Waste control loans	<u>25</u>	<u>1,004</u>

GROSS DEBT		\$8,976
------------	--	---------

Assets

Cash, time deposits, temporary investments	1,096	
Ontario Hydro bonds	1,284	
Advances - Ont. Universities		
Capital Aid Corp.	1,152	
Advances - Ont. Education Capital		
Aid Corp.	1,116	
Loans to municipalities	577	
Other investments - crown corporations,		
commissions, hospitals, etc.	<u>1,002</u>	<u>6,227</u>

NET DEBT		<u><u>\$2,749</u></u>
----------	--	-----------------------



SOURCES OF PROVINCIAL DEBT FINANCING (NET)

(millions of dollars)

<u>Fiscal Year</u>	<u>Public</u>	<u>Non-Public</u>	<u>Total "Own" Borrowing</u>	<u>On Behalf of Hydro</u>	<u>Total Ontario Financing</u>
1970-71	(51)	610	559	74	633
1971-72	286	747	1033	49	1082
1972-73	252	776	1028	154	1183
1973-74	(225)	958	733	185	918
1974-75	<u>(449)*</u>	<u>1044</u>	<u>595</u>	<u>n/a</u>	<u>n/a</u>
	<u>(187)</u>	<u>4135</u>	<u>3948</u>	<u>n/a</u>	<u>n/a</u>

\*Includes \$350 million debt reduction program (Ontario Budget p. 27)

As the table illustrates, the preponderance of Ontario's financing requirements in recent years has been provided from flows of "non-public" borrowings from government pension plans, principally the Canada Pension Plan. Virtually all capital market borrowing in recent years has been on behalf of Hydro; Ontario has not issued debentures for Provincial purposes in the public market since 1972.

Gross Debt

Gross debt consists of funded debt and unfunded liabilities. Of the \$8,976 million gross debt of the Province on October 31, 1973, 11 per cent were unfunded liabilities. The two main items in the unfunded category are borrowings from the provincial employees' superannuation fund and deposits from the Province of Ontario Savings Office, a savings bank.

Net Debt

At October 31, 1973, net debt of the Province was \$2,749 million; it

is estimated to have risen to \$2,943 million by the 1973-74 fiscal year end. Ontario's assets fall into three main categories: liquid reserves, Ontario debentures held as investments, and loans and advances to crown corporations, commissions, agencies, and local governments.

The Province's liquid reserves are held mainly in the form of hedged U.S. dollar time deposits of Canadian banks. In anticipation of the Eurodollar market problem, the domicile of most of the time deposits was shifted from London to Toronto early in 1974. The remaining two asset categories will be described in the following section.

#### Guaranteed Debt

Traditionally, Ontario has preferred to avoid a proliferation of debt, choosing instead to finance its crown corporations by direct, rather than guaranteed, financing. The notable exception to this policy is Ontario Hydro, whose semi-autonomous nature dictates that it borrow on its own account under the provincial guarantee. At October 31, 1973, Ontario's contingent liabilities stood at \$3,238 million, of which \$3,171 million represented Hydro debt. Subsequently, Hydro has issued guaranteed debentures of \$300 million. The Province's liquid reserves, \$1,000 million at March 31, 1974, provide strong support for its guarantee.

#### ONTARIO'S INVOLVEMENT IN THE CAPITAL MARKET

Ontario's capital market involvement is comprised of three types of activities:

- a. the issuance of direct debt;
- b. the allotment of the Provincial guarantee to borrowings of Ontario crown corporations, commissions and agencies; and
- c. the maintenance of an active trading posture to enhance secondary market activity.

In addition to its capital market activity, Ontario is committed to the direct financing of local governments via the purchase of debt obligations of local governments and agencies. The following two sections outline briefly the Province's debt management and direct financing roles.

#### Debt Management

The Ontario government is actively involved in the support of its debenture debt. In the current fiscal year, a budgetary allocation of \$350 million has been made to provide for a special reduction of publicly-held debt over and above scheduled retirements. In addition, the Province maintains an active two-sided trading posture, primarily in Canadian dollar issues, providing market stability and liquidity for the Provincial credit. It is anticipated that this activity will be extended to debentures issued for Provincial purposes in the U.S.

With respect to European issues, the Province has been concerned about the lack of secondary market activity for its Deutsche Mark issues. During 1974, Ontario has maintained a support bid on the relevant stock exchange to provide switching opportunities, should bond holders wish to consider such action. To date, approximately DM 10 million bonds have been purchased.

The Provincial treasury bill program, a system of weekly tenders, commenced in late 1971 and was designed to test market reception and provide a short term financing vehicle for increased year-to-year financing flexibility. The program reached a high of \$260 million outstanding in 1973 and was then reduced to minimum operating levels. In the present climate of excessive loan demand and high interest rates, the program was phased out with final maturities scheduled for repayment in July 1974.

#### Direct Funding of Local Government and Sub-Provincial Agencies

The Ontario government is deeply involved in the direct financing of municipalities, school boards and other sub-provincial agencies. This policy has created access to debt financing for municipalities too small to approach the capital market and has guaranteed a continuing source of funds to school boards and universities who, in times of credit stringency, would be unable to find accommodation in the public market. Since, in essence, direct funding permits local government debt to be raised at approximately the provincial borrowing rate, direct funding reduces substantially total provincial public sector debt carrying charges.

The Ontario Education Capital Aid Corporation (OECAC) purchases the debentures of regional school districts issued for capital construction projects. Since the borrowing rate is approximately the long term Canadian bond yield, school districts and the public in general benefit from substantial savings in interest charges. Ontario school boards have not issued debentures in the public market since 1966 and the outstanding amount of publicly-held school board debentures has fallen to \$500 million.

The Ontario Universities Capital Aid Corporation (OUCAC) performs essentially the same function as OECAC with respect to capital construction of universities and community colleges. Reflecting the virtual completion of the schools and universities capital construction programs, OUCAC disbursements have fallen from a peak of \$179 million in 1971-72 to \$38 million in the current fiscal year.

Via a number of programs, the Ontario government has provided direct funding of \$577 million for approved municipal projects (some of these are "flows-through" from the federal government). These comprise loans for such diverse capital construction projects as water and sewage system construction, municipal works, subway construction, tile drainage projects, and hospital construction.



In Ontario, at the sub-provincial level, the only remaining public borrowers of significance are school boards and municipalities. In view of the highly attractive borrowing rates offered to school districts by OECAC, it is doubtful whether there will be any significant public school board financing offerings in the foreseeable future.

The influence of Ontario's direct financing and high transfer payment programs on the municipal financing structure becomes readily apparent from a glance at the municipal bond market. In a period of heavy capital requirements, Ontario local governments' share of the Canadian municipal bond market has declined from 34 per cent of gross new issues during the early 1960's to just 21 per cent over the last five years.

The relatively low reliance on public capital markets by the municipalities suggests that substantial borrowing potential remains to be tapped at the municipal level should the need arise in the years ahead. Development of the regional municipal system will concentrate borrowers into a small number of well-known credits, enhancing the attractiveness and liquidity of municipal issues.

#### INTERPRETING ONTARIO'S DEBT STATISTICS

Because such a wide variance exists among the financing policies of governments, considerable caution must be exercised in the interpretation of government financial statements. In Canada, the effect of creating crown corporations has been to reduce significantly the amount of direct debt of some provinces; in others, the formation of crown corporations has tended to increase provincial direct debt. Such a wide range of financing alternatives exists that it is quite conceivable that two identical provinces could have the same aggregate debt, yet one record debt statistics several times the magnitude of the other. Because its financing policies have tended to accumulate Ontario public sector debt on the provincial balance sheet, Ontario's debt statistics seem high when compared to those of other governments. There



are a number of factors which contribute to this phenomenon.

#### Direct vs Indirect Debt

With the exception of Ontario Hydro, the Ontario government seldom allots its guarantee, preferring to issue debt via the direct, rather than guaranteed, route. Other provinces make much more extensive use of their guarantees. For example, one province issues all of its debt in guaranteed form.

One of the Appendices presents an interprovincial debt comparison, using both net direct debt and net direct plus guaranteed debt. The province with zero direct debt has the third highest direct plus guaranteed debt to revenue ratio. Ontario, in fifth position when direct debt is used, has the second lowest ratio of net direct plus guaranteed debt to revenue.

#### Treatment of U.S. Borrowings for Hydro

Although U.S. borrowings for Hydro have all the characteristics of guaranteed debt and, in fact, are omitted from the Statement of Operational Cash Requirements, they are technically direct debt and continue to be recorded on Ontario's Statement of Assets and Liabilities.

Were U.S. borrowings for Hydro treated as guaranteed debt, the gross direct debt of the Province would fall by \$1.4 billion. Were "flow-through" interest transactions associated with the debt netted, interest charges as a per cent of budgeting revenues would fall from 7.8 per cent to 6.7 per cent.

#### Direct Financing of Local Governments

In the financing of local governments, there are two choices open to a provincial government: 1. fulfill the bulk of local governments' cash requirements by direct financing or a system of transfer payments

or, 2. leave the municipalities to finance their own needs by capital market borrowing. In both cases, local governments accumulate roughly the same amount of debt - in the former case, it is owed to the provincial government; in the latter, to the public capital market. However, in the first situation, an equivalent amount of debt also accumulates on the provincial financial statement, whereas in the second, provincial debt is unchanged.

Because of its commitment to direct financing and large transfer payments to local governments, Ontario falls into the first category. In essence, for every dollar of "true" debt created by direct lending to a municipality, two dollars of debt are recorded, one at the municipal level and one at the provincial level.

In an interprovincial comparison, Ontario may measure up unfavourably by conventional fiscal integrity ratios when compared to jurisdictions which call upon their junior governments to finance themselves. However, in its direct financing role, the government is operating much like a financial intermediary, borrowing via debt issues and lending to its local governments. And, as in the treatment of a financial intermediary, much of Ontario's gross indebtedness might more accurately be considered a liability in the sense of a financial intermediary liability, rather than as funded debt in the conventional sense.

The problems of balance sheet interpretation suggest that the only way a common ground for comparative purposes can be reached is by a consolidation of the total public sector within any jurisdiction. Some pioneering work has been done within the Ontario government; preliminary results suggest that such a consolidation may alter traditional views of the relative debt burdens of the Canadian provinces.

#### FINANCING THE FUTURE

For several years, the Ontario government has been systematically put-

ting in place the social infrastructure and social assistance programs necessary to maintain and improve the quality of life, in this dynamic society, of Ontario residents.

A comprehensive medical care system is now firmly established. A substantial flow of transfer payments to local governments has permitted municipal governments to maintain and expand municipal services, avoiding in Ontario cities the blight which has befallen many urban centres. The GAINS program announced in the 1974 Budget Speech has assured a guaranteed annual income for the elderly, blind, and disabled.

The schools and universities construction programs are now virtually complete and the Province has achieved its goal of 60 per cent support of school board expenditures. School board debt associated with the construction program has begun to decline. Substantial inroads have been made in the provision of housing to the needy, toward the development of efficient intra- and inter-city rapid transit, and to the provision of perpetual urban greenbelts and provincial parkland.

Achievement of Ontario's social goals has been costly. In spite of annual tax increases, the Province's net debt has almost doubled over the last five years and net debt per capita has grown by 75 per cent.

While many of the Province's social goals have been achieved, much remains to be done. The rapid expansion of both population and industry in Ontario will stimulate further demand for energy; Ontario Hydro has forecasted capital requirements of \$26 billion over the next decade. Subsidies for the implementation of efficient urban transit and the development and installation of the Province's Intermediate Capacity Transit System will require expenditure of an additional several billion dollars. The Province's policies with respect to land use, industrial and urban development, and the provision of housing represent a further major demand for funds.

The rapid growth of Gross Provincial Product forecast for the next decade will substantially expand the Provincial tax base. Inevitable tax increases will further increase the growth of Provincial revenues. A more equitable distribution of tax sharing with the federal government will bring a further expansion of revenues. This revenue growth, combined with a winding down of several major Provincial programs reaching completion, will permit a substantial portion of the social policies to be financed by budgetary revenues and the flow of internal funds.

Much of Ontario's social policy development, however, is in the form of lasting social capital formation, to be enjoyed by future generations, and it is inevitable that a substantial portion of these capital expenditures will continue to be raised by public debenture issues in the Canadian and foreign capital markets. In an era of massive capital requirements by other government organizations and the public sector, Ontario's financing will become an increasing challenge which will require expanding the breadth and penetration of capital markets. However, Ontario is one of the most politically stable and economically sound economies in the world; it will be capable of meeting the challenge without impairing its status as Canada's prime provincial credit.



# statistical appendices

## PAGE NO.

- 32. Statement of Operational Cash Requirements
- 33. Ontario Direct and Guaranteed Debt
- 34. Ontario Public Debt Issues since April 1, 1968  
(Excluding Hydro)
- 35. Sources of Provincial Debt Financing (Net)
- 36. Per Cent Distribution of Ontario Funded Debt
- 37. Debt Maturity Schedule
- 38. Ontario Fiscal Integrity Statistics
- 39. Interest on the Ontario Public Debt
- 40. Interprovincial Debt Comparison

As indicated by its title, this publication was designed to provide an introduction to Ontario's financial structure.

Those wishing additional information may contact the Finance Management Branch, Ministry of Treasury, Economics and Intergovernmental Affairs, Queen's Park, Toronto, Ontario. The branch maintains an economic research staff headed by Bill Milne and an active market operation headed by Don Peace. Both can be reached for further discussion by telephone. (416) 965-5786



STATEMENT OF OPERATIONAL CASH REQUIREMENTS

(\$ million)

	<u>1970-71</u>	<u>1971-72</u>	<u>1972-73</u>	<u>Interim 1973-74</u>	<u>Estimated 1974-75</u>
<u>Budgetary Transactions:</u>					
Gross Revenue	5,081	5,403	6,115	6,883	7,716
Annual % Change	15.5%	6.3%	13.2%	12.6%	12.1%
Gross Expenditure	5,217	6,028	6,481	7,304	8,341
Annual % Change	22.7%	15.5%	7.5%	12.7%	14.2%
Budgetary Deficit	(136)	(625)	(366)	(421)	(625)
<u>Non-Budgetary Transactions:</u>					
Receipts & Credits	215	291	268	325	491
Annual % Change	10.3%	35.3%	(7.9%)	21.3%	33.8%
Disbursements & Charges	646	685	642	625	574
Annual % Change	9.1%	6.0%	(6.2%)	(2.6%)	(8.2%)
Non-Budgetary Deficit	(431)	(394)	(374)	(300)	(83)
Net Cash Requirements	567	1,019	740	721	708

ONTARIO DIRECT AND GUARANTEED DEBT

	<u>Funded Debt</u>	<u>Gross Debt</u>	<u>Net Debt</u>	<u>Contingent Liabilities</u>	<u>Gross Debt / Revenue</u>	<u>Net Debt / Revenue</u>	<u>Net Debt / G.P.P.</u>	<u>Net Debt / Personal Income</u>	<u>Net Debt Per Capita</u>
		(\$ million)			(%)	(%)	(%)	(%)	(\$)
1964-65	1998	2309	1328	1754	138.4	79.6	6.5	8.9	196.52
1965-66	2226	2567	1331	1752	131.1	67.9	6.1	8.0	192.22
1966-67	2623	3013	1331	1927	124.0	54.8	5.4	7.1	187.53
1967-68	3237	3669	1449	1933	127.2	50.2	5.5	7.1	200.25
1968-69	3961	4448	1542	2127	126.0	43.7	5.3	6.8	209.51
1969-70	4560	5084	1393	2168	115.5	31.7	4.3	5.4	185.03
1970-71	5193	5795	1529	2413	114.1	30.1	4.4	5.5	199.00
1971-72	6275	6986	2154	2781	129.3	39.9	5.7	7.0	276.09
1972-73	7459	8333	2522	3030	136.3	41.2	6.0	7.5	318.47
1973-74	8395	n/a	2943	n/a	n/a	42.8	6.1	7.5*	366.14
1974-75	n/a	n/a	3568	n/a	n/a	46.2	6.6	8.0*	437.31

\* Ontario Treasury estimates of personal income

ONTARIO PUBLIC DEBT ISSUES SINCE APRIL 1, 1968 (Excluding Hydro)\*  
(millions of dollars)

<u>Year</u>	<u>By Original Term To Maturity</u>					<u>Total</u>	<u>By Country</u>		
	<u>Less than 1 year</u>	<u>1-5 years</u>	<u>5-10 years</u>	<u>10-20 years</u>	<u>20-25 years</u>		<u>Canada</u>	<u>Germany</u>	<u>U.S.</u>
1968-69	-	40	24	40	-	104	-	104	-
1969-70	-	-	-	-	-	-	-	-	-
1970-71	-	-	-	-	-	-	-	-	-
1971-72	190	-	25	-	75	290	290	-	-
1972-73	70	-	-	31	200	301	270	31	-
1973-74	-	-	-	-	-	-	-	-	-
TOTAL	260	40	49	71	275	695	560	135	-

\* Total Provincial borrowing on behalf of Hydro - \$975 million, all placed in U.S. for 30 year term

SOURCES OF PROVINCIAL DEBT FINANCING (NET)

(millions of dollars)

Year	CPP	Non-Public			Public	Total "Own" Borrowing	On Behalf Of Hydro	Total Provincial Financing
		Teachers	OMERS	Other				
				Total				
1964-65	-	36	11	6	53	111	-	111
1965-66	20	57	14	30	122	177	47	224
1966-67	333	41	20	33	426	369	33	402
1967-68	376	55	25	25	480	488	121	609
1968-69	412	73	33	3	521	571	153	724
1969-70	446	80	47	(4)	569	508	190	698
1970-71	476	80	58	(4)	610	559	74	633
1971-72	498	172	75	2	747	1033	49	1082
1972-73	536	120	91	29	776	1028	154	1183
1973-74	607	217	125	9	958	733	223	956
1974-75	700	166	124	54	1044	595	n/a	n/a
TOTAL	4404	1097	623	183	6306	6172	n/a	n/a

\* Includes \$350 million special debt reduction program

PER CENT DISTRIBUTION OF ONTARIO FUNDED DEBT

<u>Fiscal Year Ending</u>	<u>Debentures</u>					<u>Treasury Bills</u>
	<u>Canada</u>	<u>Germany</u>	<u>U.S. (Prov.)</u>	<u>U.S. (Hydro)</u>	<u>Sub Total</u>	
1964	62.0%	- %	3.7%	18.4%	84.1%	- %
1965	61.6	-	3.6	17.3	82.5	-
1966	58.0	-	3.2	17.6	78.8	-
1967	47.3	-	2.6	16.1	66.0	-
1968	38.4	-	2.2	16.8	57.4	-
1969	30.2	2.6	1.7	17.5	52.1	-
1970	22.9	2.3	1.3	19.4	45.9	-
1971	19.2	2.0	1.2	18.4	40.7	-
1972	17.4	1.7	1.0	16.0	36.0	3.0
1973	16.7	1.8	0.8	15.5	34.8	3.5
1974	14.7	1.1	0.6	16.5	32.9	1.1

	<u>Non-Public</u>				<u>Sub Total</u>	<u>Total Funded Debt</u>
	<u>C.P.P.</u>	<u>Teachers</u>	<u>OMERS</u>	<u>Other</u>		
1964	- %	15.0%	0.2%	0.6%	15.9%	100.0%
1965	-	16.0	0.8	0.8	17.5	100.0
1966	0.9	16.9	1.3	2.1	21.2	100.0
1967	13.4	15.9	1.9	2.8	34.0	100.0
1968	22.5	14.6	2.3	3.2	42.6	100.0
1969	28.8	13.8	2.7	2.7	47.9	100.0
1970	34.8	13.7	3.4	2.2	54.1	100.0
1971	39.7	13.6	4.1	1.9	59.2	100.0
1972	40.8	14.0	4.6	1.6	60.9	100.0
1973	41.5	13.4	5.1	1.7	61.7	100.0
1974	44.1	14.2	6.0	1.7	66.0	100.0



DEBT MATURITY SCHEDULE \*

(,000)

<u>Year **</u>	<u>ONTARIO</u>			<u>HYDRO ***</u>
	<u>at October 31, 1973</u>			<u>at Dec.31/73</u>
	<u>Can. Dollars</u>	<u>U.S. Dollars</u>	<u>Deutsche M.</u>	<u>Can. Dollars</u>
1974	\$ 3,714	\$ -	DM -	\$ 106,817
1975	50,546	42,301	105,000	70,960
1976	37,902	-	15,000	171,524
1977	35,773	-	15,000	137,462
1978	70,826	-	15,000	218,919
	<hr/>	<hr/>	<hr/>	<hr/>
1974-78	198,761	42,301	150,000	705,682
1979-83	317,537	116,422	112,500	577,084
1984-88	1,498,655	113,638	77,500	483,093
1989-93	2,858,238	48,100	-	302,035
1994-98	1,083,214	175,855	-	1,428,209
1999-	386,884	842,375	-	775,821
	<hr/>	<hr/>	<hr/>	<hr/>
	\$6,343,289	\$1,338,691	DM 340,000	\$ 4,271,924
	<hr/>	<hr/>	<hr/>	<hr/>

\* Excludes Notes payable and Treasury Bills

\*\* Year ending is March 31st for Ontario, December 31st for Hydro

\*\*\* Canadian dollar equivalent of bonds, distributed as follows:

<u>Currency</u>	<u>Canadian Dollars</u>
	(,000)
Canadian issues	\$2,778,399
Eurodollar issue	35,295
West German issues	137,109
Swiss issue	25,912
United States issues	1,295,209
	<hr/>
	\$4,271,924
	<hr/>

# ONTARIO FISCAL INTEGRITY STATISTICS

Revenue	(1973-74)	\$6,883 million
Expenditure	(1973-74)	\$7,304 million
Gross Debt	(Oct. 1973)	\$8,976 million
Net Debt	(Mar. 1974)	\$2,943 million
Personal Income Per Capita	(1972)	\$4,324
Total Taxable Assessment	(1972)	\$23,132 million
Provincial Equalized Taxable Assessment	(1972)	\$69,492 million
Estimated Full Valuation (est. 135% of above)	(1974)	\$94,000 million
Taxable Assessment/Full Valuation	( - )	24.6%
Net Debt Per Capita	(1974)	\$366.14
Net Debt/Estimated Full Valuation	(1974)	3.1%
Net Debt/Personal Income	(1974)	7.5%
Debt Payment	(Oct. 1973)	3.8% in 5 yrs. 9.9% in 10 yrs.

INTEREST ON THE ONTARIO PUBLIC DEBT

	<u>Interest Earned On Investments</u>	<u>Interest Paid On Debt</u> (\$ million)	<u>Net Interest Payments</u>	<u>Interest Paid/ General Revenue</u>	<u>Net Interest Payments/ General Revenue</u>
1963-64	\$ 26.6	\$ 87.3	\$ 60.7	5.8%	(5.0)* 4.1%
1964-65	30.4	92.8	62.4	5.6	(4.8) 3.7
1965-66	40.0	103.1	63.2	5.3	(4.5) 3.2
1966-67	61.5	120.7	59.2	5.0	(4.3) 2.4
1967-68	87.2	151.3	64.2	5.2	(4.6) 2.2
1968-69	124.2	196.5	72.3	5.6	(4.8) 2.0
1969-70	188.6	249.1	60.5	5.7	(4.7) 1.4
1970-71	249.4	310.6	61.2	6.1	(5.0) 1.2
1971-72	291.5	380.6	89.1	7.0	(5.9) 1.6
1972-73	300.4	476.9	176.5	7.8	(6.7) 2.9
1973-74	359	603	244	8.8	(n/a) 3.5
1974-75	428	674	246	8.7	(n/a) 3.2

\* Bracketed numbers are percentages when 'flow-through' interest payments due to U.S. borrowing on behalf of Hydro are netted.

INTERPROVINCIAL DEBT COMPARISON \*

Forecast - March 31, 1974

Province	Net Direct and Guaranteed Debt				Net Direct Debt			
	\$ millions	% of Gov't. Revenue	Per Capita	Rank	\$ millions	% of Gov't. Revenue	Per Capita	Rank
Saskatchewan	\$ 273.8	45.8%	\$ 290	1/1	\$ 84.2	14.1%	\$ 89	3/3
Ontario	6591.8	95.9	818	2/3	2991.8	43.6	371	5/5
P.E.I.	107.4	95.9	950	2/4	85.0	75.8	752	8/9
Nova Scotia	502.1	105.4	630	4/2	339.0	71.2	425	6/6
Quebec	7432.9	149.8	1193	5/5	3592.4	72.3	577	7/7
Alberta	2279.9	168.1	1338	6/7	483.9	35.7	284	4/4
Manitoba	1249.5	171.6	1225	7/6	74.5	10.2	73	2/2
Br. Columbia	3186.5	174.6	1360	8/8	-	-	-	1/1
New Brunswick	918.8	202.8	1390	9/9	419.8	92.6	635	9/8
Newfoundland	1376.3	296.0	2530	10/10	720.0	154.8	1324	10/10

\* Estimated October 31, 1973. Substantial differences in accounting practices among provinces limit the usefulness of interprovincial comparisons.

HJ            Ontario's financial  
13            structure.  
.06  
.058  
1974



